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The Effect of Environmental Accounting Disclosure, Corporate Social Responsibility, and Digital Innovation on the Financial Performance

*Assyifa Hisanah Amaliah[1], Abin Suarsa[2], Wasifah Hanim[3]**

[1,2,3] *Fakultas Ekonomi dan Bisnis, Universitas Muhammadiyah Bandung, Indonesia*

General Background: Rapid technological development and industrial expansion have exacerbated environmental challenges, thereby increasing the importance of environmental accountability in the banking sector. **Specific Background:** Disclosure of environmental reports, corporate social responsibility (CSR) and digital innovation are increasingly recognised as mechanisms for enhancing transparency, organisational legitimacy, stakeholder trust and financial performance. **Knowledge Gap:** However, empirical evidence examining these three dimensions simultaneously in the banking sector using recent multi-year data remains limited. **Objective:** This study examines the impact of environmental accounting disclosures, CSR, and digital innovation on the financial performance of banks listed on the Indonesia Stock Exchange during the period 2022–2024. **Methods:** A quantitative causal research design was employed using multiple regression analysis, in which environmental accounting disclosures, CSR disclosures and digital innovation were treated as independent variables, whilst financial performance served as the dependent variable. **Results:** Environmental accounting disclosures and digital innovation have a significant negative impact on financial performance, whilst CSR has a significant positive impact. **Novelty:** This study develops an integrated framework combining environmental accounting, CSR and digital innovation to explain banks' financial performance. **Implications:** These findings suggest that environmental accounting and digital innovation may incur short-term costs, whilst CSR strengthens stakeholder trust and legitimacy, highlighting the importance of integrating these dimensions to support sustainable financial value creation.

Keywords: Environmental Accounting Disclosure, Corporate Social Responsibility, Digital Innovation, Financial Performance.

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**Correspondence:*
Wasifah Hanim
wasifah.hanim@umbandung.ac.id

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INTRODUCTION

Rapid industrial development and technological progress have given rise to significant environmental challenges in developing countries such as Indonesia, as industrial processes often lead to increased air and water pollution and the degradation of natural ecosystems (Agyemang *et al*., 2021; Ridwan, 2007). Empirical evidence from Indonesia shows that the environmental pressures arising from industrial growth continue to hamper sustainability initiatives, as persistent air, soil and water pollution reflect weaknesses in environmental governance within industrial estates. This situation highlights the importance of environmental accounting, or green accounting, which involves the identification, measurement and reporting of a company's environmental impacts—including emissions and waste management—as part of corporate disclosure. Regular environmental reporting enhances transparency, accountability, organisational legitimacy and stakeholder trust, whilst contributing to financial performance by strengthening environmental risk management and cost efficiency (Dewi, 2025; Nisa, 2017).

Corporate Social Responsibility (CSR) disclosures reflect a company's commitment to social accountability, community engagement, employee well-being and ethical conduct, and are positively correlated with stakeholder trust, corporate reputation, customer loyalty and organisational resilience during times of crisis and market volatility (Kim *et al*., 2022; Selumbung & Sanjaya, 2023; Natalia, 2022). Sustainability reporting further enhances transparency for investors and the public whilst fostering positive and constructive relationships with stakeholders (Natalia, 2022).

Corporate Social Responsibility (CSR) serves as a key strategic approach to enhancing a company's credibility and social legitimacy, whilst contributing to the long-term sustainability of business operations (Africano *et al*., 2025). At the same time, environmental accounting disclosures reinforce this role by helping companies recognise and integrate environmental costs into decision-making, as well as openly communicating information regarding emissions, resource utilisation and ecological risks—actions that foster greater stakeholder trust and may ultimately support stronger financial outcomes (Africano *et al*., 2025; Destiana & Simorangkir, 2024; Surahmat *et al*., 2025). In the Legitimacy Theory proposed by (Suchman, 1995), it is assumed that organisations seek to align their actions with societal norms and expectations in order to maintain legitimacy. Meanwhile, Stakeholder Theory, as proposed by (Freeman & McVea, 2001), emphasises that companies must consider the interests of all parties affected by their activities to ensure sustainable, long-term success. These theories provide a conceptual framework for understanding how sustainability reporting, CSR, and digital innovation influence financial performance. These theories guide the integration of environmental, social and technological strategies into banking operations (Vargas-Merino *et al*., 2023).

In the financial sector, particularly within banking institutions, sustainable economic growth can be driven by mobilising financial resources and allocating capital based on ESG considerations. Banks play a vital role in supporting sustainable development by incorporating environmental and social aspects into their lending processes and risk assessments (Galletta *et al*., 2025; Gupta, 2025; Sebastião *et al*., 2024). At a global level, CSR contributes to the achievement of the Sustainable Development Goals (SDGs) and serves not only as an ethical obligation but also as a strategic approach to ensuring business sustainability and the creation of long-term value (Kalbouneh *et al*., 2023; Kurniawaty *et al*., 2025; Vargas-Merino *et al*., 2023). In the Indonesian context, empirical studies indicate that green accounting and CSR disclosure are effective in reducing environmental impacts as well as enhancing corporate legitimacy and stakeholder perceptions (Anggraeni & Dewi, 2023; Meutia *et al*., 2022; Ekawati *et al*., 2025; Setiawan & Prakoso, 2024).

Beyond environmental and social dimensions, digital innovation has emerged as a strategic driver of operational sustainability in the banking sector. The implementation of digital banking services, online transaction systems, and market responsiveness (Daeli & Wedari, 2025; Hasanudin *et al*., 2024; Setiawan & Prakoso, 2024). However, empirical evidence suggests that digital transformation does not always yield immediate benefits, as substantial investment costs, the complexity of system integration, and the burden of organisational adjustment can weigh on short-term financial performance, thereby creating a short-term profitability paradox (Daeli & Wedari, 2025; Yogaswari & Diantini, 2024).

A number of studies have examined the relationship between environmental accounting disclosures, CSR and digital innovation on financial performance; however, the findings obtained are still inconclusive. Environmental accounting disclosures and green accounting practices enhance corporate transparency and legitimacy, thereby boosting profitability and firm value. Environmental accounting disclosures and green accounting practices enhance corporate transparency and legitimacy, thereby boosting profitability and firm value (Destiana & Simorangkir, 2024; Galletta *et al*., 2025). CSR has been shown to be not only a social obligation but also a business strategy that strengthens reputation, reduces the risk of financial irregularities, and enhances financial performance in a sustainable manner (Africano *et al*., 2025; Selumbung & Sanjaya, 2023; Kurniawaty *et al*., 2025; Pratiwi *et al*., 2021). Furthermore, digital innovation, particularly in the banking sector, ultimately drives improvements in financial performance (Chairina & Yusri, 2023; Daeli & Wedari, 2025; Setiawan & Prakoso, 2024).

On the other hand, evidence from the banking sector suggests that environmental disclosure and the financial materiality of ESG factors have a negative impact on profitability indicators such as ROA and ROE (Gündüz & Gündüz, 2025; Oluwakemi & Mishelle, 2025). Similar inconsistencies have also been observed in research on digital innovation: although technological advances can enhance sustainability and corporate performance, their impact is often not statistically significant (Daeli & Wedari, 2025; Ningdiyah *et al*., 2024), meanwhile, some studies suggest that, whilst the direction of the effect is positive, it is not statistically significant because the benefits in terms of reputation and legitimacy tend to be long-term (Maryanti & Fithri, 2017; Natalia, 2022).

Overall, previous evidence shows mixed results regarding the impact of environmental accounting disclosures and digital innovation on financial performance, indicating the need for

further research. Given the inconsistency of previous research findings, this study examines these three aspects in the short term amongst listed banks in Indonesia.

Although studies on environmental accounting disclosure, CSR and digital innovation have proliferated, research combining these three dimensions within a single integrated analytical framework in the Indonesian banking sector remains limited. Studies specifically examining the short-term financial consequences associated with investment expenditure, regulatory compliance requirements and organisational adjustment processes are still rare. Most previous studies have focused primarily on long-term benefits and often assume that positive financial effects occur instantly, meaning that short-term dynamics have been under-explored. Consequently, this study evaluates the short-term impact of environmental accounting disclosures, CSR and digital innovation on the financial performance of banks listed in Indonesia.

By highlighting the short-term performance paradox, this study deepens our understanding of the complex relationship between sustainability and performance, whilst broadening the application of the legitimacy and stakeholder perspectives within the context of banking in emerging markets.

METHODS

Data

The research subjects were banks listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. Data were obtained from the companies' annual reports via the Indonesia Stock Exchange's official website, as well as from sustainability reports available on each bank's website. The sample was selected using purposive sampling, based on the following criteria: banks that were consistently listed on the IDX throughout the study period, published sustainability reports, and had complete financial data in line with the research variables. A total of 175 annual data observations were successfully obtained.

Dependent Variable

The dependent variable in this study is financial performance, measured using the Return on Assets (ROA) ratio as a proxy for profitability. ROA is used because it reflects a company's ability to utilise its total assets efficiently to generate profit, thus serving as an indicator of overall operational efficiency (Maharani & Riana, 2024). The dependent variable in this study is financial performance, proxied by the Return on Assets (ROA) ratio as an indicator of profitability. ROA is used because this ratio illustrates a company's efficiency in utilising its total assets to generate profit and reflects overall operational efficiency. ROA is calculated using the following formula:

$$\text{Return On Asset} = \frac{\text{Net Profit}}{\text{Total Assets}} \text{ x } 100\%$$

ROA measures a company's ability to generate profit from its asset base and is widely recognised as a benchmark for profitability and the efficiency of management in utilising resources (Brigham & Houston, 2018). In banking research, ROA is highly relevant as it indicates the effectiveness of management in converting asset-based intermediary activities into revenue.

Independent Variable

Environmental Accounting Disclosure

Environmental accounting disclosure is measured using the environmental cost ratio (ECR), which assesses the proportion of environmental expenditure relative to total operating costs arising from business activities. The ECR reflects the extent to which a company internalises environmental costs in its managerial decision-making and financial reporting practices. This indicator was selected because it provides a measurable picture of environmental responsibility and has been widely applied in environmental accounting research in Indonesia. This indicator was selected because it provides a measurable picture of environmental responsibility and has been widely used in environmental accounting studies in Indonesia. The ECR is calculated as follows:

$$\text{ECR} = \frac{\text{Total Environmental Costs}}{\text{Total Operating Costs}} \text{ x } 100\%$$

Corporate Social Responsibility

Corporate Social Responsibility (CSR) refers to various forms of corporate social responsibility relating to activities that have an impact on society, communities and the environment (Maryanti & Fithri, 2017). To assess CSR, the Corporate Social Responsibility Disclosure Index (CSRDI) is used; this index comprises 78 disclosure items drawn from Financial Services Authority (OJK) Regulation POJK No. 51/POJK.03/2017 and the relevant Global Reporting Initiative (GRI) standards applicable to the banking sector. The CSRDI is used to assess the extent to which banks disclose environmental, social and governance (ESG) information in their sustainability reports and annual reports, thereby demonstrating their commitment to responsible and sustainable business practices. The application of this index helps to ensure compliance with applicable regulations whilst enhancing the comparability of CSR disclosures amongst banking institutions. The CSRDI is calculated using the following formula:

$$\text{CSRID} = \frac{\sum x}{n}$$

Where:
CSRID = Corporate Social Responsibility Disclosure Index
$\sum x$ = Total number of disclosed items
n = Total CSR disclosure indicators

Digital innovation

Digital innovation plays a strategic role in supporting operational sustainability within Indonesian banking institutions (Hasanudin & Faeni, 2025). This refers to the integration of digital technology with physical resources to produce new digital-based products, processes or business models (Ningdiyah *et al.*, 2024; Ekawati *et al.*, 2025).

In this study, digital innovation is measured using the Digital Innovation Index (DII), which comprises indicators reflecting digital transformation initiatives, technology-based services, and digitalisation strategies as reported in annual disclosures and sustainability reports. The DII reflects the extent to which a company is engaged in digital innovation practices. This disclosure-based index is appropriate because the financial impact of digital investment may not be directly reflected in observable accounting performance. The DII is calculated as follows:

$$IDI = \frac{\sum x}{n}$$

Where:
IDI = Indeks Digital Innovation
$\sum x$ = Number of disclosed digital innovation items (coded 1 if disclosed and 0 otherwise)
n = Total number of assessed digital innovation indicators

Technical Analysis

This study employs a descriptive-associative quantitative research design with an explanatory approach. Data analysis was carried out using multiple linear regression to evaluate the relationship between the research variables, as set out in the following equation:

$$FP = \alpha + \beta_1 GA + \beta_2 CSR + \beta_3 DI + \varepsilon$$

Where:
FP = Return on Asset
α = Constant (intercept)
$\beta_1, \beta_2, \beta_3$ = Regression Coefficients
ε = Error term or residual

Multiple regression analysis was applied to identify short-term associative relationships between sustainability disclosure, digital innovation and financial performance, rather than to draw long-term causal conclusions. This analytical approach is consistent with previous empirical studies examining short-term earnings responses to ESG initiatives and digital investment activities.

To ensure that the regression model satisfies the assumptions of the Best Linear Unbiased Estimator (BLUE), classical diagnostic tests were carried out, including the Kolmogorov–Smirnov test for normality, Variance Inflation Factor (VIF) analysis for multicollinearity, evaluation of scatter plots for heteroscedasticity, and the Durbin–Watson statistic for autocorrelation.

RESULTS AND DISCUSSION

Classical Assumption Test

Normality Test

The normality test was conducted to assess whether the data followed a normal distribution, a crucial assumption for ensuring the validity of many statistical estimation techniques (Maryanti & Fithri, 2017). The Kolmogorov-Smirnov test produced a significance value of 0.302, which exceeded the threshold of 0.05. Therefore, the null hypothesis that the data is not normally distributed cannot be rejected, indicating that the data is normally distributed. The results of the normality test are presented in Table 1.

[Table 1 about here.]

Heteroscedasticity Test

The heteroscedasticity test was applied to determine whether the regression residual variance was constant across observations. Based on the Breusch–Pagan test results, all independent variables show probability values greater than 0.05. These results indicate that the regression model does not experience heteroscedasticity and the residual variance remains stable. The heteroscedasticity test results are presented in Table 2.

[Table 2 about here.]

Multicollinearity Test

Since this model includes three independent variables, multicollinearity assessment is necessary. The Variance Inflation Factor (VIF) results indicate that no explanatory variables show a strong linear relationship with each other, as reflected in VIF values below 10.00 and tolerance values above 0.10. These findings confirm that multicollinearity is not present in the regression model. The results of the multicollinearity test are presented in Table 3.

[Table 3 about here.]

Autocorrelation Test

As this study uses time-series data, an autocorrelation test is necessary to check whether the residuals are correlated between time periods. The Durbin–Watson (DW) statistic is used to evaluate the serial correlation between period t and period t–1. The regression model is considered free of autocorrelation if the DW value is in the range DU < DW < (4 – DU). The autocorrelation test results are presented in Table 4.

[Table 4 about here.]

Based on Table 4, the Durbin–Watson critical value at a 5% significance level, the calculated DW statistic meets the condition 1.7877 < 1.852 < 2.2123. Therefore, the regression model is concluded to be free of autocorrelation.

Descriptive Analysis

Descriptive analysis was used to provide an overview of the distribution characteristics, central tendency, and variability of the research variables, namely financial performance (FP), environmental accounting disclosure (GA), corporate social responsibility (CSR), and digital innovation (DI). Table 5 summarises the minimum, maximum, mean, and standard deviation values for each variable.

[Table 5 about here.]

The descriptive statistics indicate that environmental accounting (GA) range fromm0.002 to 8.002, with mean of 0.636 and a standard deviation of 1.046. The mean being close to the minimum value suggest that the data distribution is concentrated at a lower level, while the fairly large dispersion reflects substantial heterogeneity across companies.

The CSR variable records a minimum value of 0.179 and a maximum of 1.000, with an average of 0.714 and a standard deviation of 0.188. The mean's proximity to the upper bound, that implies the most firms disclose CSR at a relatively high level. The small standard deviation indicates limited variability, pointing to fairly homogeneous distribution.

Digital Innovation (DI) ranges from 0.333 to 1.000, with a mean of 0.785 and a standard deviation of 0.175. The high average suggests that most sample banks demonstrate stronge engange in digital innovation activities, while the low dispersion show that DI is relatively uniform.

Financial performance (FP) spans from 0.001 to 18.058, with a mean of 1.412 and a standard deviation of 1.892. This broad range, a long with standard deviation exceeds the mean considerable differences in profitability among the analysed banks analyzed, indicating that FP relatively heterogeneous.

Overall, descriptive findings show that CSR and digital innovation are at relatively high and homogeneous, whereas environmental accounting disclosures show considerable variation between companies, and financial performance shows significant dispersion

Multiple Regression Analysis

Empirical estimates yield the following multiple regression equation:

$$FP= 1{,}040-0{,}126\ GA+ 2{,}801\ CSR-1{,}971\ DI+ \varepsilon$$

In Table 7, the coefficient of determination (R^2) of 0.945 indicates that approximately 94.5% of the variation in financial performance (FP) is explained by the three explanatory variables included in the model, while the remaining 5.5% is due to factors outside the scope of this study. The model's overall significance is supported by an F statistic of 709.641 (p=0.000) demonstrate that environmental accounting disclosure (GA) and digital innovation jointly exert a statistically significant influence financial performance.

[Table 7 about here.]

The intercept value of 1.040 indicates that when all explanatory variables are assumed to be zero, the estimated level of financial performance is 1.040. Based on Table 6, environmental accounting disclosure (GA) has a regression coefficient of 0.126 with a t-statistic of −3.384 and a significance level of 0.001 (<0.05), indicating a statistically significant negative partial effect on financial performance.

This finding indicates that the higher the level of environmental disclosure, the lower the bank's short-term profit, suggesting that environment-related expenditures are more often viewed as operational costs rather than as long-term strategic investments.

[Table 6 about here.]

In this Table 6, Corporate social responsibility (CSR) produced a coefficient of 2.801 with a t-value of 13.316 and a significance level of 0.000, indicating a positive and statistically significant effect on financial performance. These results indicate that CSR activities can increase corporate legitimacy and stakeholder trust, thereby contributing to increased profitability.

Based on Table 6, Digital innovation (DI) has a coefficient of −1.971, a t-value of −33.513, and a significance level of 0.000, confirming a significant negative effect of digital innovation on financial performance. This indicates that digital transformation can temporarily suppress profitability, possibly due to the large investment costs that are not yet offset by increased revenue in the short term.

In general, increased transparency in environmental accounting disclosures tends to be associated with a decline in short-term financial performance. This pattern can be explained by the additional costs arising from reporting, environmental auditing, and regulatory compliance, which in the short term can limit profitability.

The negative impact of environmental disclosure and digital investment is consistent with the investment delay perspective, which argues that high initial costs and delayed realisation of benefits can suppress short-term profitability (Daeli & Wedari, 2025; Gündüz & Gündüz, 2025). In line with this view, previous studies have noted that high environmental costs and extensive disclosure practices tend to reduce short-term profitability in the banking sector (Gündüz & Gündüz, 2025; Oluwakemi & Mishelle, 2025), who noted that high environmental costs and extensive disclosure practices tend to reduce short-term profits in the banking sector.

Conversely, the positive effects of CSR are consistent with stakeholder and legitimacy theories, suggesting that active engagement in CSR strengthens trust, corporate reputation, and institutional legitimacy, which in turn improves financial performance (Pratiwi *et al*., 2021; Pribowo, 2023). These findings support previous empirical evidence showing that CSR enhances investor confidence, and stability, ultimately strengthening profitability and financial resilience (Africano *et al*., 2025; Kim *et al*., 2022; Selumbung & Sanjaya, 2022). Banks that consistently implement and disclose CSR initiatives such as sustainability programmes, community development activities, financial literacy promotion, and SME empowerment are more likely to strengthen their corporate image and foster stakeholder trust, especially among customers and investors.Thus, CSR not merely normative but also a relevan isntrument for creating economic value in the Indonesian banking context (Kurniawaty *et al*., 2025).

The negative impact of digital innovation, although seemingly counterintuitive, can be explained by several factors. First, the initial investment required for digital infrastructure and technology is enormous. Second, many banks have not yet fully optimized their digital platforms to generate commensurate revenue growth. Third, the digital transformation process often faces organizational resistance, challenges in employee adaptation, and continued dependence on legacy systems. As a result, digitalisation initiatives can temporarily disrupt operational efficiency and suppress short-term profitability before generating long term efficiency and economic value (Daeli & Wedari, 2025; Gündüz & Gündüz, 2025). Finally, simultaneously, environmental accounting disclosure, corporate social responsibility, and digital innovation collectively influence financial performance.

CONCLUSION

The impact of environmental accounting disclosures and digital innovation on short-term financial performance is negative due to high implementation costs and adjustment challenges, in line with the investment lag perspective in legitimation theory. On the other hand, corporate social responsibility (CSR) makes a positive contribution to firm performance by enhancing stakeholder trust and strengthening organisational legitimacy, which is consistent with the stakeholder theory perspective. The results of the simultaneous testing indicate that these three variables collectively influence financial performance, thereby underscoring the importance of integrating environmental, social and technological initiatives. From a theoretical perspective, this study enriches the discourse on environmental, social, governance and digital investments by revealing the short-term performance paradox in the banking sector in emerging markets. In practical terms, this study guides managers and policymakers in balancing sustainability, social responsibility and digital transformation to create long-term financial value.

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***Table 1** / Normality Test Results*

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			175
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		.51590208
Most Extreme Differences	Absolute		.072
	Positive		.066
	Negative		-.072
Test Statistic			.072
Asymp. Sig. (2-tailed)			.026[c]
Monte Carlo Sig. (2-tailed)	Sig.		.302[d]
	99% Confidence Interval	Lower Bound	.290
		Upper Bound	.314

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. Based on 10000 sampled tables with starting seed 2000000.

Source**:** Author's computation, 2025

***Table 2** / Heteroscedasticity Test Results*

Variables	Sig.	Criteria	conclusion
Environmental Accountancy (GA)	0,084	p > 0,05	No Heteroskedasticity
Corporate Social Responsibility (CSR)	0,785	p > 0,05	No Heteroskedasticity
Digital Inovation (DI)	0,500	p > 0,05	No Heteroskedasticity

Source**:** Author's computation, 2025

***Table 3** / Multicollinearity Test Results*

Variables	Coefficients		Conclusion
	Tolerance	VIF	
Environmental Accountancy (GA)	0,636	1, 572	Non Multicollinearity
Corporate Social Responsibility (CSR)	0,998	1,002	Non Multicollinearity
Digital Inovation (DI)	0,635	1, 575	Non Multicollinearity

Source**:** Author's computation, 2025

***Table 4** / Autocorrelation Test Results*

DU (n = 175, k = 3)	(4 – DU)	Durbin Watson (DW)
1,7877	2,2123	1,864

Source**:** Author's computation, 2025

***Table 5** / Descriptive Statistics*

Variables	N	Min	Max	Mean	Std. Dev.
Environmental Accountancy (GA)	175	0,002	8,002	0,636	1.046
Corporate Social Responsibility (CSR)	175	0,179	1,000	0,714	0,188
Digital Inovation (DI)	175	0,333	1,000	0,785	0, 175
Financial Performance (FP)	175	0,001	18,058	1,412	1,892

Source**:** Author's computation, 2025

***Table 6** / Regression Results*

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std Error	Beta		
(Constant)	1.040	.158		6.582	.000
GA	-.126	.037	-.088	-3.384	.001
CSR	2.801	.210	.278	13.316	.000
DI	-1.971	-059	-.877	-33.513	.000

a Dependent Variable: FP

Source: Author's Computation

***Table 7** / Model Summary and ANOVA Test Results*

Model Summary

Model	R Square
1	0.945

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	576.564	3	192.188	709.641	.000[b]
	Residual	46.311	171	.271		
	Total	622.875	174			

a. Dependent Variable: FP

b. Predictors: (Constant), GA, CSR, DI

Source: Author's Computation